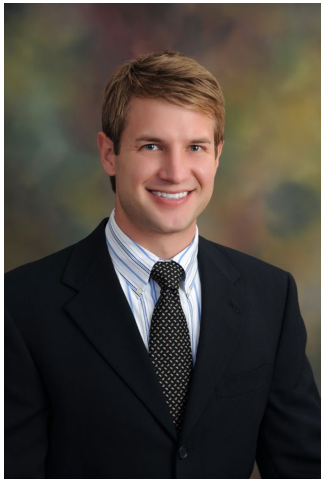
Prepare for Future Funding Needs

Optimizing the Amount of Eligible Collateral Pledged



MICHAEL YOUNG | Senior Marketing & Member Solutions Officer

Michael joined FHLBank in 2012. He has held various positions with the bank in several areas including Accounting, Enterprise Risk Management, and Lending. Michael was promoted to his current role in 2023 and continues to assist members with viable strategies and product education to maximize the value of their membership.

Webinar Discussion Topics

- Regulatory Focus
- Overview of two FHLB Resources for Members:
  1. *Building Operational & Reliable Liquidity*
  2. *Liquidity Stress Analysis*
- Policy Limits – keep them FLEXIBLE!
- How FHLBank Can Help

Prepare for future funding needs by optimizing the amount of eligible collateral pledged.

FHLBank Topeka

LIQUIDITY

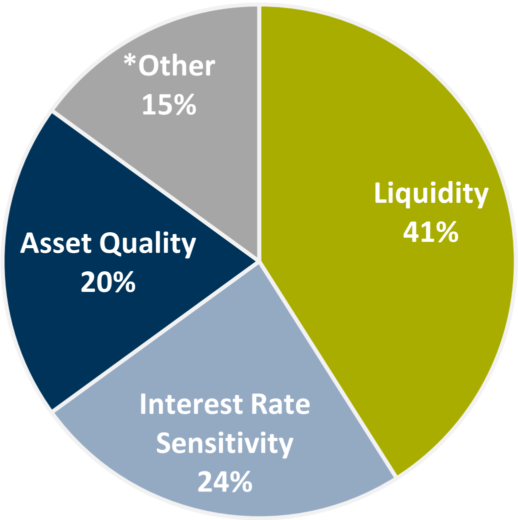
Ability to raise money **quickly**	**Without loss** of principal	At a **reasonable cost**

FHLBank Topeka

Regulatory Focus

- **Enhanced liquidity risk management program**
  - Comprehensive contingency funding Plans (CFP)
  - Enhanced liquidity stress test scenarios
  - Appropriate strategies, policies, procedures, and limits
  - Comprehensive liquidity risk measurement and monitoring systems
    - Reporting of liquidity and dependency against board-approved limits and risk tolerance
  - Analysis of funding sources and uses
- Interest rate risk
- Capital adequacy

SUPERVISORY FOCUS



From recent, publicly available, Enforcement Actions & survey responses from FHLBank Members during the first quarter.

**Other – primarily earnings and capital.*

Building Operational & Contingent Liquidity

Pledging more loans will allow you to convert non-saleable loans to liquidity and will prevent idle non-productive cash from sitting on balance sheet.

Benefits of an Improved Collateral Position

- Liquidity can irreparably damage an institution significantly faster than credit
- Reduce examiner concern and enhance operating flexibility and strengthen contingency plans
- Agile and quickly reacting to stress scenarios and other liquidity needs
  - It's much easier to have the eligible collateral pledged and capacity available before a stress event occurs
- Fortifying a sufficient buffer against deposit migration and need to fill the funding gap when liquidity needs arise

Building Operational & Contingent Liquidity

BUILDING OPERATIONAL & CONTINGENT LIQUIDITY

Benefits to Optimizing Pledged Collateral Position

We can help you develop a base and contingency funding strategy that allows you to utilize FHLBank advances for a portion of your base funding and still provide you with sufficient contingency funding sources. Benefits to growing your FHLBank eligible loan (and/or security) collateral base:

- An improved total liquidity position will help reduce examiner concern regarding liquidity – improved operating flexibility and strengthened contingency plan.
  - → Be proactive, not reactive, to exam discussions – define, document, defend liquidity and funding strategy.
- Allows you to be agile in responding to stress scenarios.
- Ability to better access a funding source with maturities and structures to aid in hedging interest rate risk and provide cost savings to enhance bottom line earnings.
  - → Fill funding needs base on desired maturities, costs and risk profile.
  - → Opportunity to replace higher costing other wholesale funding such as brokered or listing service deposits.
- Fortifying a sufficient buffer against deposit migration and need to fill the funding gap when a liquidity need arises.
  - → Provides option to effectively manage overall funding costs through marginal cost of funds analytics when deposit base under pressure.

Expand Your FHLBank-Eligible Collateral With Our Help

Our analysis of your call report indicates that **you may have collateral available to increase your borrowing base and contingent liquidity at FHLBank**. The primary focus of a collateral analysis is on potential collateral not currently being pledged. Pledging these assets will allow you to increase your use of funding from FHLBank and still keep sufficient contingent liquidity capacity.

Current FHLBank Pledged Collateral Position

($millions)		% of assets
Unpaid Principal Balance	$ 91.8	10.6%
Lending Value [A]	68.0	7.9%
FHLBank Credit Obligations	67.2	7.8%
Available Capacity	0.8	0.1%
Collateral Utilization [B]	98.9%	

40% of assets credit obligations limit

Current Assets Pledged (Lending Value)

		% of assets
Unrestricted Loans	$ 16.7	1.9%
Securities	24.4	2.8%
Restricted Loans	26.9	3.1%

25% of restricted assets pledging limit

Estimated Add'l Collateral & Pro Forma Collateral Position

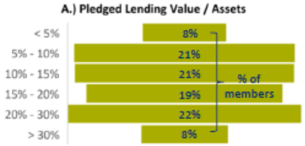
(lending value adjusted)

Est. Add'l	Pro Forma	% of assets	
$ 57.8	$ 74.5	8.6%	
-	24.4	2.8%	
189.5	216.4	25.0%	
$ 247.3	$ 315.3	36.4%	+ 28.6%

expanded operational & contingency liquidity

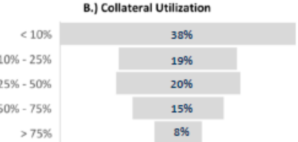
Where does your current utilization and pledged collateral position stand against your peers?

A.) Pledged Lending Value / Assets



Current Position = 7.9%

B.) Collateral Utilization



FHLBank Obligations / Pledged Lending Value

Current Position = 98.9%

Building reliable access to funding is essential to effective liquidity management.

INTEGRATE FHLBANK FUNDING INTO YOUR BASE FUNDING PLAN

Why include FHLBank funding as source of operational funding in your liquidity strategy?

The interest rate environment has radically transformed since March 2022 and we continue to face economic challenges and downside risks. The financial landscape has shifted with retreating liquidity positions, declining market value in bond portfolios, persistent loan growth, and deposit base erosion all contributing to increased utilization of wholesale funding – particularly FHLBank advances.

FHLBank is an important source of funding for both operational, or base, liquidity and as part of your contingent funding plan. In the current environment, **we suggest allocating a larger portion of your FHLBank funding limit to base liquidity** and take advantage of the cost and efficiency FHLBank advances provide. Not all powder, or capacity, at FHLBank needs to be kept "*dry*". Utilization of FHLBank advances can do the following:

- Provide lower cost funding when FHLBank advances are inexpensive relative to other funding sources.
- Hedge interest rate risk and option risk in your loan portfolio.
- Supplement core funding when asset growth exceeds core funding growth.
- Provide funding for seasonally based asset growth.
- Leverage excess liquidity for short-term low-risk, earnings enhancement strategies.
- Increase your ability to strengthen the FHLBank cooperative by fueling increased revenues that can be used to support member-benefitting initiatives and funding for housing and community development.

Have you reviewed your policies to ensure they allow for meaningful borrowing flexibility, with sufficient collateral pledged, to secure funding if needed? Most of the loans you originate and hold in portfolio are illiquid assets – and in some cases, your held-to-maturity securities portfolio.

Pledging more of these loans will allow you to convert non-saleable loans to liquidity and will prevent idle non-productive cash from sitting on balance sheet.

Illustrative Allocation of Operational & Contingent Liquidity

Current FHLBank Pledged Collateral Position

($millions)		% of assets
Unpaid Principal Balance	$ 91.8	10.6%
Lending Value	68.0	7.9%
FHLBank Credit Obligations	67.2	7.8%
Collateral Utilization	98.9%	
Available Capacity	$ 0.8	

Allocation of Existing FHLBank Pledged Collateral

Overall FHLBank Borrowing Limit	Base FHLBank Funding Limit	Contingent FHLBank Funding Limit
7.9%	5.0%	2.9%
	$43.3mm	$24.7mm

Pro Forma FHLBank Pledged Collateral Position

($millions) [lending value adjusted]	
Est. Add'l Collateral to Maximize Capacity	**$ 247.3**
Total Pro Forma Estimated Capacity	315.3
Available Capacity	248.1

Utilize recent asset growth for collateral and liquidity purposes.

Allocation of Estimated Additional Collateral

Overall FHLBank Borrowing Limit	Base FHLBank Funding Limit	Contingent FHLBank Funding Limit
36.4%	20.0%	16.4%
	$173.1mm	$142.2mm
	+ $129.8mm	+ $117.5mm

$248.1mm Remaining Available Capacity
[pro forma capacity less current FHLBank obligations]

- What are your funding and liquidity policy metrics and what are your established limits?
- Other sources of funds can also be used for contingency liquidity purposes to augment the portion of the FHLBank limit allocated to contingency funding by efficiently leveraging collateral pledged to the Federal Reserve, corporate credit unions or other facility that is not eligible at FHLBank.
  - → If not already established, consider putting a subordination agreement in place with the applicable facility to boost liquidity access.
- Based on the maximum borrowing capacity of up to 40% of assets, we suggest maintaining FHLBank utilization generally around 15-20% of total funding as part of your base liquidity strategy, keeping the remaining 20% of the policy limit available to fund the balance sheet during stress events.

Contact your Regional Account Manager for more detailed liquidity planning strategies & liquidity strategy support.

FHLBank Topeka

Building Access To Reliable Funding Is Essential To Effective Liquidity Management

Expand Your FHLBank-Eligible Collateral With Our Help

Current FHLBank Pledged Collateral Position

($millions)		% of assets
Unpaid Principal Balance	$ 91.8	10.6%
Lending Value [A]	68.0	7.9%
FHLBank Credit Obligations	67.2	7.8%
Available Capacity	0.8	0.1%
Collateral Utilization [B]	98.9%	

40% of assets credit obligations limit

Current Assets Pledged (Lending Value)

		% of assets
Unrestricted Loans	$ 16.7	1.9%
Securities	24.4	2.8%
Restricted Loans	26.9	3.1%

25% of restricted assets pledging limit

Estimated Add'l Collateral & Pro Forma Collateral Position

(lending value adjusted)

Est. Add'l	Pro Forma	% of assets	
$ 57.8	$ 74.5	8.6%	
-	24.4	2.8%	
189.5	216.4	25.0%	
$ 247.3	$ 315.3	36.4%	+ 28.6%

expanded operational & contingency liquidity

- Pledged collateral provides access to immediate funding and liquidity by using the line of credit or various term advance structures
  - Borrowing up to 100% of the lending value of assets pledged

Estimated capacity

Integrate FHLBank Funding Into Your Base Funding Plan

Illustrative Allocation of Operational & Contingent Liquidity

Pro Forma FHLBank Pledged Collateral Position

($millions) *[lending value adjusted]*

Est. Add'l Collateral to Maximize Capacity	**$ 247.3**
Total Pro Forma Estimated Capacity	315.3
Available Capacity	248.1

Utilize recent asset growth for collateral and liquidity purposes.

Allocation of Estimated Additional Collateral

Overall FHLBank Borrowing Limit	Base FHLBank Funding Limit	Contingent FHLBank Funding Limit
36.4%	20.0%	16.4%
	$173.1mm	$142.2mm
	+ $129.8mm	**+ $117.5mm**

$248.1mm Remaining Available Capacity
[pro forma capacity less current FHLBank obligations]

- Allocate a larger portion of your FHLBank funding limit to operational, or base, liquidity
  - Allows you to take advantage of the cost and efficiency FHLBank advances provide

FHLBank Topeka

Optimizing Pledged Collateral

- Better responses to examiner inquiries about your liquidity position and management practices
- Benefits of allocating a larger portion of your FHLBank funding limit to operational:
  - Demonstrates the quick and reliable nature of FHLBank funding to your regulators
  - Familiarize your institution with the uses & benefits of advance products
  - Better interest rate risk management by having access to customizable funding and providing cost savings to enhance earnings
  - Provides funding for seasonally-based asset growth
- Economic uncertainty!

Be proactive, not reactive – liquidity events happen fast!

FHLBank Topeka

Liquidity Stress Analysis

Proactively managing potential challenges that may arise should take into consideration the impact on future earnings, liquidity risk and deposit migration.

LIQUIDITY EXERCISE – PLANNING FOR A STRESS EVENT

Because it is a collateralized funding source, FHLBank advances may be available to fund the balance sheet after other sources of near-core and non-core funding have dried up, making advances an important contingency funding source. It is generally believed FHLBank borrowings will be one of the last to terminate in stress conditions, so **FHLBank advances should be a key ingredient in a contingency funding plan.** Contingency funding plans include early warning indicators and triggers, the identification of contingency funding sources and the testing and documentation of those contingency funding sources. Ongoing measuring, monitoring and analysis of liquidity and liquidity stress events are essential elements of liquidity planning and management. A comprehensive contingency funding plan should sufficiently address potential adverse events and emergency cash flow requirements.

Planning for contingent liquidity stress events includes the following:

- Identify potential events
- Evaluate probability and impact
- Determine stress event time horizon
- Document stress scenarios and assessment
- Review potential events and scenarios annually and update

Proactively managing potential challenges that may arise should take into consideration the impact on future earnings, liquidity risk and deposit migration. A liquidity crisis or shortfall can result in lost business opportunity, a competitive disadvantage, lost revenue from increased cost associated with paying up for deposits or emergency funding facilities or your charter? It is imperative to validate your liquidity and funding strategies through documentation of stress test results.

Ask your Regional Account Manager for example near- and non-core funding sources and limits worksheets and/or stress scenario worksheets to build documentation and support for your liquidity and funding strategy.

Stress Scenario Assumptions

Adjusted Liquid Assets and Scenario Balances ($000s)

	Current	Low	Moderate	High
Cash and Interest-bearing Deposits	$ 39,293	$ 39,293	$ 39,293	$ 39,293
Fed Funds Sold & Reverse Repo Agreements	577	577	577	577
Trading Assets	-	-	-	-
AFS Securities (Market Value)	51,046	51,046	51,046	51,046
HTM Securities (Cost Basis)	-	-	-	-
Less: Pledged Securities	25,745	25,745	25,745	25,745
Less: Securities & ST Invest. Maturities (< 12 mos)		972	972	972
Plus: Loans Held for Sale	-	-	-	-
Total Adjusted Liquid Assets	$ 65,171	$ 64,199	$ 64,199	$ 64,199

Stress Scenario Assumptions - Growth/Retention/Runoff (within 12 months)

	Balance	Low	Moderate	High
Sources/Inflows of Funds				
Maturing Time Deposits Renew %	$ 216,358	80.0%	40.0%	20.0%
(excludes maturing brokered deposits)				
Uses/Outflows of Funds				
Non-Maturity Deposits	$ 432,883	0.0%	5.0%	10.0%
Total Brokered Deposits Runoff	64,225	0.0%	10.0%	20.0%
Listing Service Deposits Runoff	37,239	0.0%	10.0%	20.0%
Loan Growth - Last Twelve Months %	14.1%	14.1%	14.1%	14.1%
Maturing Loan Renewal % (< 12 mos)	$ 156,825	70.0%	75.0%	80.0%
Total Off BS Commitments - Draws	214,248	0.0%	10.0%	20.0%

Stress Scenario Cash Flow Analysis & Ratio Impact

Cash Flow (within 12 months) ($000s)

	Low	Moderate	High
Sources/Inflows of Funds			
Investment Maturities:			
Securities Maturing	$ 395	$ 395	$ 395
Fed Funds Sold + Reverse Repo Agreements	577	577	577
Loans Maturing	156,825	156,825	156,825
Total Investments Maturing	$ 157,797	$ 157,797	$ 157,797
Deposit Inflows:			
Maturing Time Deposit Renewals	$ 173,086	$ 86,543	$ 43,272
Total Sources/Inflows of Funds	$ 330,883	$ 244,340	$ 201,069
Uses/Outflows of Funds			
Deposit Outflows (Maturing/Runoff):			
Non-Maturity Deposit Runoff	$ -	$ 21,644	$ 43,288
Time Deposits Maturing	216,358	216,358	216,358
Brokered Deposits Runoff	-	6,423	12,845
Listing Service Deposits Runoff	-	3,724	7,448
Total Deposit Outflow	$ 216,358	$ 248,149	$ 279,939
Borrowings Maturities:			
FHLBank Advance Maturities	$ 15,000	$ 15,000	$ 15,000
Other Borrowing Maturities	-	-	-
Fed Funds Purch + Repos Maturing	-	-	-
Total Borrowings Maturing	$ 15,000	$ 15,000	$ 15,000
Other Outflows:			
Loan Renewals	$ 109,778	$ 117,619	$ 125,460
Loan Growth	88,754	88,754	88,754
Advances on Unused Commitments	-	21,425	42,850
Total Other Outflows	$ 198,532	$ 227,798	$ 257,064
Total Uses/Outflows of Funds	$ 429,890	$ 490,946	$ 552,003
Net Scenario Cash Flow	$ (99,006)	$ (246,606)	$ (350,934)

Net Adjusted Liquid Assets - Stressed ($000s)

	Low	Moderate	High
Adjusted Liquid Assets Before Stress	$ 64,199	$ 64,199	$ 64,199
Accumulated Other Comprehensive Income	(4,966)	(4,966)	(4,966)
Net Scenario Cash Flow	(99,006)	(246,606)	(350,334)
Liquid Assets After Stress	(39,773)	(187,373)	(291,101)

FHLBank Borrowing Capacity ($000s)

	Low	Moderate	High	
Current FHLBank Credit Obligations	$ 55,295	$ 55,295	$ 55,295	
Less: FHLBank Advance Maturities	15,000	15,000	15,000	
Projected FHLBank Credit Obligations	$ 40,295	$ 40,295	$ 40,295	
Plus: Stressed Liquidity Need (Net Scenario Cash Flow)	99,006	246,606	350,934	
Required FHLBank Borrowing Capacity	139,301	286,901	391,229	A
Current Pledged Collateral (Lending Value)	66,813	66,813	66,813	B
Current Excess Collateral (Shortfall)	$ (72,488)	$ (220,088)	$ (324,416)	C = B - A
FHLBank Borrowing Capacity:				
Percent of Assets Limit 40%	$ 346,247	$ 346,247	$ 346,247	D
Additional Collateral to Pledge	279,434	279,434	279,434	E = D - B
Stressed FHLBank Collateral Utilization	208.49%	429.41%	585.56%	F = A / B
Additional Collateral Required to Fill Need	$ 72,488	$ 220,088	$ 324,416	G = A - B
Collateral Available to Cover Need?	Yes	Yes	No	E > G
Excess Collateral (Shortfall)	$ 206,946	$ 59,346	$ (44,982)	H = E - G

Indicates how much additional collateral may be required to meet contingency liquidity needs in a stressed environment.

May also be used to identify what portion of current borrowing capacity could be used for operational needs vs. "dry powder."

It takes time to pledge additional collateral – make this part of your near-term contingency process.

Current and Stress Scenario Impact to Liquidity and Funding Ratios

	Current			Low		Moderate		High	
	Ratio	Benchmark	Within?	Ratio	Within?	Ratio	Within?	Ratio	Within?
Liquid Assets / Assets	7.53%	>= 10%	✗	-4.31%	✗	-26.47%	✗	-46.70%	✗
Net Loans and Leases / Deposits	82.34%	<= 75%	✗	93.28%	✗	116.99%	✗	139.77%	✗
Reliance on Wholesale Funding	10.35%	< 15%	✓	9.08%	✓	9.81%	✓	10.00%	✓
Brokered Deposits / Deposits	8.56%	<= 10%	✓	9.08%	✓	9.81%	✓	10.00%	✓
Advances / Assets	1.73%	<= 20%	✓	0.00%	✓	0.00%	✓	0.00%	✓

FHLBank Topeka

Stress Scenario Assumptions

Adjusted Liquid Assets and Scenario Balances ($000s)

	Current	Low	Moderate	High
Cash and Interest-bearing Deposits	$ 39,293	$ 39,293	$ 39,293	$ 39,293
Fed Funds Sold & Reverse Repo Agreements	577	577	577	577
Trading Assets	-	-	-	-
AFS Securities (Market Value)	51,046	51,046	51,046	51,046
HTM Securities (Cost Basis)	-	-	-	-
Less: Pledged Securities	25,745	25,745	25,745	25,745
Less: Securities & ST Invest. Maturities (< 12 mos)		972	972	972
Plus: Loans Held for Sale	-	-	-	-
Total Adjusted Liquid Assets	$ 65,171	$ 64,199	$ 64,199	$ 64,199

Stress Scenario Assumptions - Growth/Retention/Runoff (within 12 months)

	Balance	Low	Moderate	High
Sources/Inflows of Funds				
Maturing Time Deposits Renew %	$ 216,358	80.0%	40.0%	20.0%
(excludes maturing brokered deposits)				
Uses/Outflows of Funds				
Non-Maturity Deposits	$ 432,883	0.0%	5.0%	10.0%
Total Brokered Deposits Runoff	64,225	0.0%	10.0%	20.0%
Listing Service Deposits Runoff	37,239	0.0%	10.0%	20.0%
Loan Growth - Last Twelve Months %	14.1%	14.1%	14.1%	14.1%
Maturing Loan Renewal % (< 12 mos)	$ 156,825	70.0%	75.0%	80.0%
Total Off BS Commitments - Draws	214,248	0.0%	10.0%	20.0%

Stress Scenario Cash Flow Analysis & Ratio Impact

Cash Flow (within 12 months) ($000s)

	Low	Moderate	High
Sources/Inflows of Funds			
Investment Maturities:			
Securities Maturing	$ 395	$ 395	$ 395
Fed Funds Sold + Reverse Repo Agreements	577	577	577
Loans Maturing	156,825	156,825	156,825
Total Investments Maturing	$ 157,797	$ 157,797	$ 157,797
Deposit Inflows:			
Maturing Time Deposit Renewals	$ 173,086	$ 86,543	$ 43,272
Total Sources/Inflows of Funds	$ 330,883	$ 244,340	$ 201,069
Uses/Outflows of Funds			
Deposit Outflows (Maturing/Runoff):			
Non-Maturity Deposit Runoff	$ -	$ 21,644	$ 43,288
Time Deposits Maturing	216,358	216,358	216,358
Brokered Deposits Runoff	-	6,423	12,845
Listing Service Deposits Runoff	-	3,724	7,448
Total Deposit Outflow	$ 216,358	$ 248,149	$ 279,939
Borrowings Maturities:			
FHLBank Advance Maturities	$ 15,000	$ 15,000	$ 15,000
Other Borrowing Maturities	-	-	-
Fed Funds Purch + Repos Maturing	-	-	-
Total Borrowings Maturing	$ 15,000	$ 15,000	$ 15,000
Other Outflows:			
Loan Renewals	$ 109,778	$ 117,619	$ 125,460
Loan Growth	88,754	88,754	88,754
Advances on Unused Commitments	-	21,425	42,850
Total Other Outflows	$ 198,532	$ 227,798	$ 257,064
Total Uses/Outflows of Funds	$ 429,890	$ 490,946	$ 552,003
Net Scenario Cash Flow	$ (99,006)	$ (246,606)	$ (350,934)

Net Adjusted Liquid Assets - Stressed ($000s)

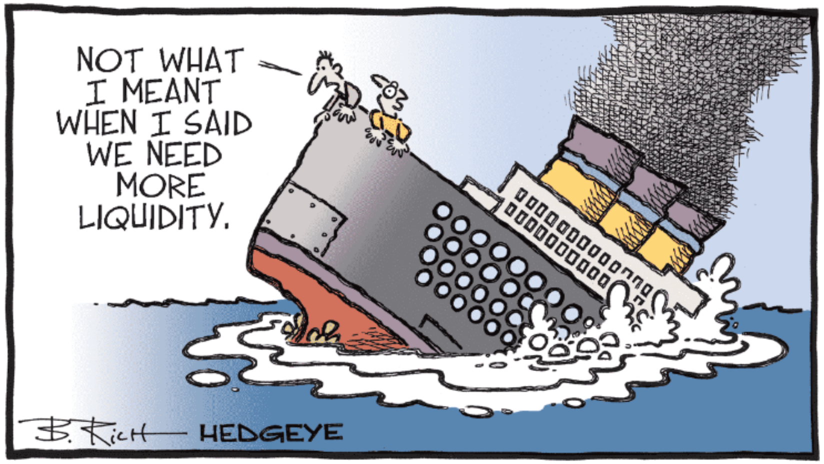
	Low	Moderate	High
Adjusted Liquid Assets Before Stress	$ 64,199	$ 64,199	$ 64,199
Accumulated Other Comprehensive Income	(4,966)	(4,966)	(4,966)
Net Scenario Cash Flow	(99,006)	(246,606)	(350,934)
Liquid Assets After Stress	(39,773)	(187,373)	(291,701)

FHLBank Borrowing Capacity ($000s)

		Low	Moderate	High	
Current FHLBank Credit Obligations		$ 55,295	$ 55,295	$ 55,295	
Less: FHLBank Advance Maturities		15,000	15,000	15,000	
Projected FHLBank Credit Obligations		$ 40,295	$ 40,295	$ 40,295	
Plus: Stressed Liquidity Need (Net Scenario Cash Flow)		99,006	246,606	350,934	
Required FHLBank Borrowing Capacity		139,301	286,901	391,229	A
Current Pledged Collateral (Lending Value)		66,813	66,813	66,813	B
Current Excess Collateral (Shortfall)		$ (72,488)	$ (220,088)	$ (324,416)	C = B - A
FHLBank Borrowing Capacity:					
Percent of Assets Limit	40%	$ 346,247	$ 346,247	$ 346,247	D
Additional Collateral to Pledge		279,434	279,434	279,434	E = D - B
Stressed FHLBank Collateral Utilization		208.49%	429.41%	585.56%	F = A / B
Additional Collateral Required to Fill Need		$ 72,488	$ 220,088	$ 324,416	G = A - B
Collateral Available to Cover Need?		Yes	Yes	No	E > G
Excess Collateral (Shortfall)		$ 206,946	$ 59,346	$ (44,982)	H = E - G

Liquidity Stress Testing & Contingency Funding Planning

- Think about the impact and probability of various scenarios
- Robust liquidity planning, policies, and stress testing has allowed banks to navigate around near failure
- Review and make necessary changes to policies to increase flexibility
  - Allocate time to ensure policies allow for meaningful flexibility, with outlets and collateral pledged to secure funding if needed



Help Reduce Examiner Concern

DEFINE

- Limits
- Sources
- Events

DOCUMENT

- Policy and Strategies
- Funding Sources and Uses
  - Limits
- Measurements, Analysis and Tests

DEFEND

- Follow your strategy and know your position
- Communicate how and why use sources
  - Funding worksheets
- Be confident and convincing regarding your plan

FHLBank Topeka

Identify Additional Eligible Collateral

- Request the Collateral Capacity Analysis for your institution
- Review FHLBank's Schedule of Eligible Collateral
  - Available online in our Member Products & Services Guide at fhlbtopeka.com/mpsg [link]
- Consider loans you aren't reporting on the QCD form and why.
- Organize the loans based on size (largest first) within each collateral type using the Collateral Template on Members Only
- Work with Financial Services to discuss a case-by-case approval or adjust your processes to improve efficiency and effectiveness

For FHLBank Topeka, liquidity or capacity is about the amount of eligible collateral available to pledge.

 The Financial Services department has been renamed to the Collateral and Safekeeping Operations department.

FHLBank Topeka

Optimize Amount of Collateral Pledged: Recap

- Reduce examiner concern and enhance operating flexibility and strengthen contingency plans
- Pledging more eligible loans enables you to convert non-saleable loans to readily available liquidity which mitigates idle non-productive cash from sitting on balance sheet and improves operational readiness
- Proactively managing potential challenges that may arise should take into consideration the impact on future earnings, liquidity risk, and deposit migration
- For FHLBank Topeka, liquidity or capacity is about the amount of eligible collateral available to pledge

How FHLBank Can Help

What FHLBank Can Provide

- Supporting documentation to enhance your policies and plans
  - Example funding worksheets for near- and non-core funding sources and/or stress scenario event worksheets
- Aid in identifying additional collateral to increase FHLBank capacity
- Assist in determining the funding limit allocation between operational (base) & contingent liquidity
- Strategies and tools to enhance earnings and mitigate risk

Additional Resources on Public Site

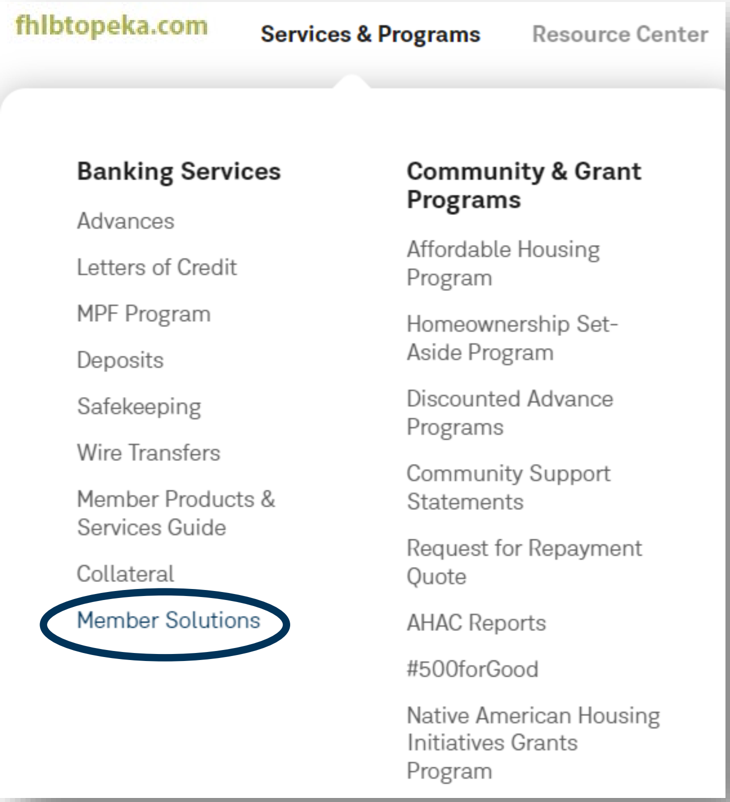
- Collateral Resources [link]
  - *Training*
  - *Helpful guides + articles*
  - *Collateral news*
  - *Contacts*
- Resource Center [link]
  - *Financial Intelligence Articles*
    - *Quarterly Economic Updates*
    - *Quarterly Trends Reports*
  - *Videos & Podcasts*
  - *Upcoming Events*
  - *Latest News*

FHLBank Topeka

Member Solutions

Tools and Analysis Resources

- Liquidity Stress Analysis
- Liquidity Management Analysis & Strategies
- Liquidity Tool Box
- Letter of Credit Utilization Strategies
- Amortizing and Bullet Advance Funding Models
- Blended Funding and Match Funding Advance Models
- Dividend Benefit Analysis
- Collateral Capacity Analysis
- Marginal Cost of Funds & Deposit Portfolio Pricing Strategies
- Purchased Deposit Funds Analysis
- Market Interest Rate Comparison
- Return on Average Equity (ROAE) Analysis
- Financial Trends & Peer Comparison Report
- Time Deposit Refinance Exposure Analysis



Click here to visit our landing page and request customized solutions for your institution

Use the form at the bottom to request tools and analysis or contact your regional account manager

FHLBank Topeka

Marketing & Member Solutions Team

Leslie Mondesir
AVP, Marketing and Member Solutions Manager
785.478.8183
leslie.mondesir@fhlbtopeka.com

Michael Young
AVP, Senior Marketing and Member Solutions Officer
785.478.8213
michael.young@fhlbtopeka.com

ADDITIONAL FHLBANK CONTACTS

Tony Venditte
Regional Account Manager – Central and Eastern Nebraska and NE Kansas
tony.venditte@fhlbtopeka.com
785.248.6176

Jeff Steiner
Regional Account Manager – Most of Kansas
jeff.steiner@fhlbtopeka.com
785.478.8170

Drew Simmons
Regional Account Manager – Oklahoma
drew.simmons@fhlbtopeka.com
402.399.2002

Rusty Davis
Regional Account Manager – Colorado, Western Kansas and Western Nebraska
rusty.davis@fhlbtopeka.com
720.212.9873

Derek Layton
Lending Officer
derek.layton@fhlbtopeka.com
785.478.8217

Lending
800.809.2733

Wire Services
800.934.9473

Housing & Community Development
866.571.8155

MPF Program
866.571.8171

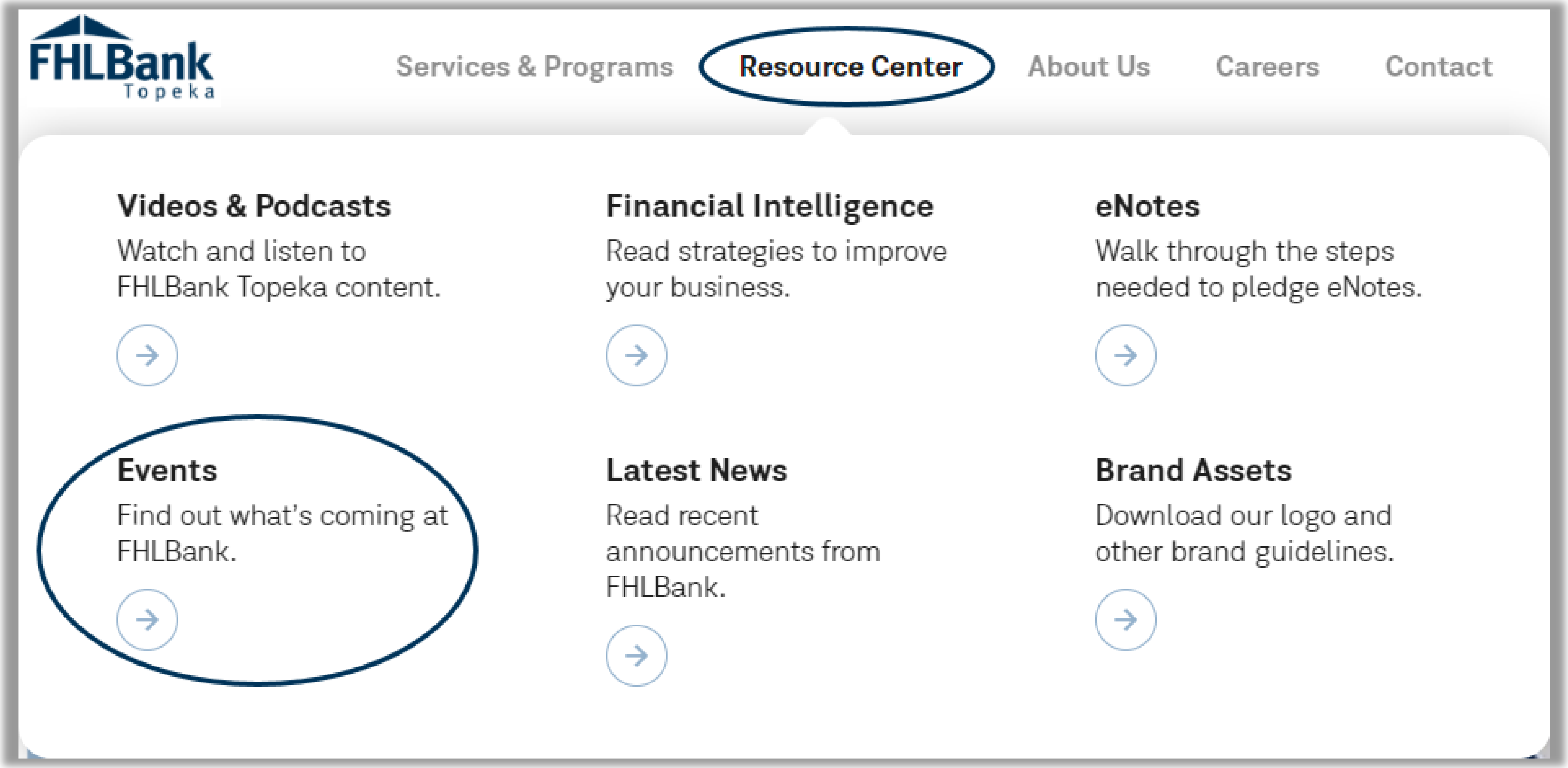
Financial Services
877.933.7803

Member Credit Analysis
800.905.2733

The Financial Services department has been renamed to the Collateral and Safekeeping Operations department.

FHLBank Topeka

Visit Our Resource Center for Upcoming Events



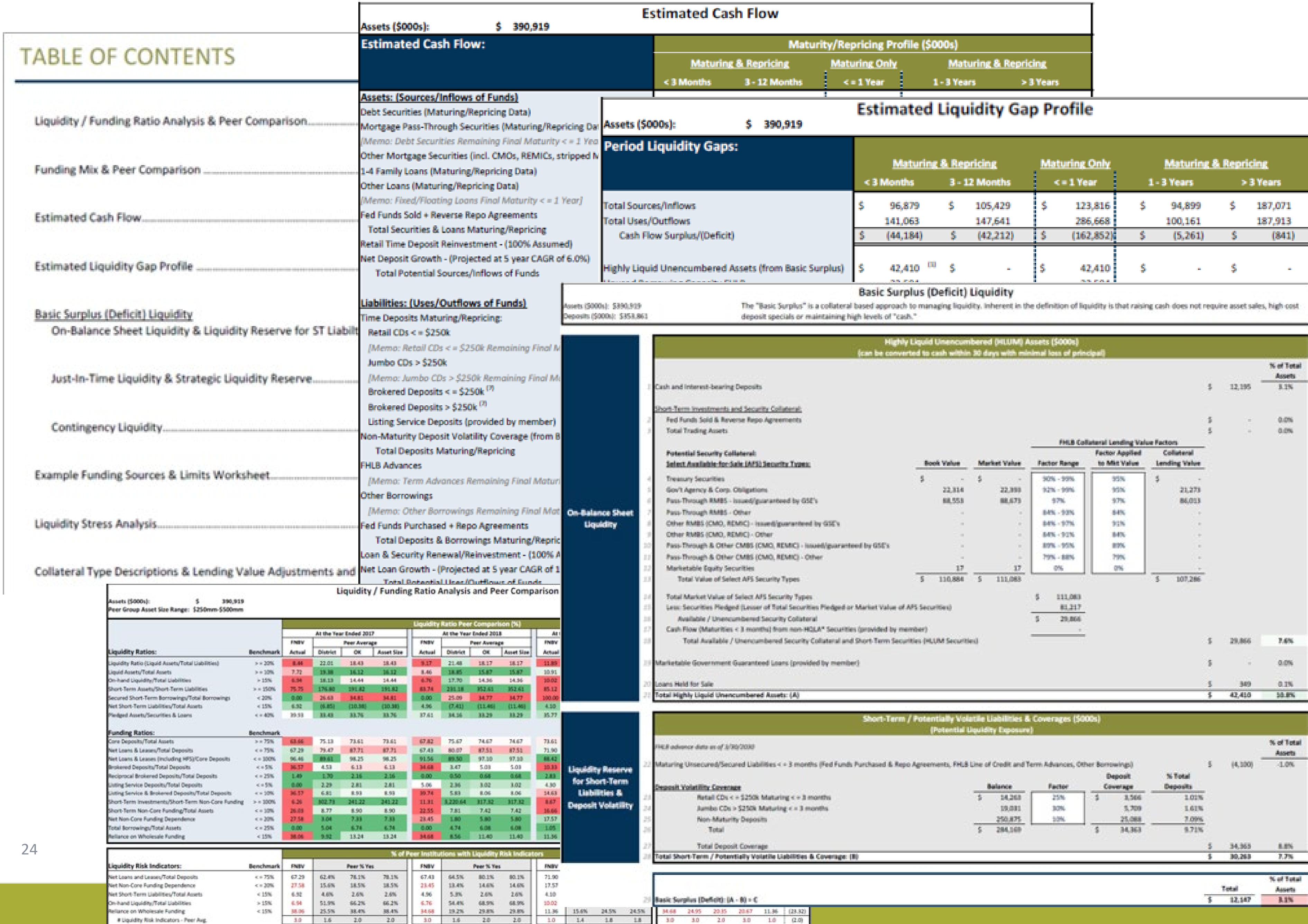
[Resource Center - Federal Home Loan Bank Topeka (fhlbtopeka.com)](https://www.fhlbtopeka.com) [link]

Appendix

Click here to view the most recent list and request customized solutions for your institution

Use the form at the bottom to request tools and analysis or contact your regional account manager

Member Solutions Tools & Analysis – Liquidity Analysis



Funding Inventory: Identify Sources & Establish Limits

Example Funding Sources and Limits Worksheet
Near-Core and Non-Core Liquidity Sources
($000s)

Source	Type	Status	Liquidity Role	Test Frequency	Illustrative Limits: Overall % of Assets	Overall ($000s)	Primary (Base) % of Assets	Primary (Base) ($000s)	Contingent % of Assets	Contingent ($000s)	MRQ Balance ($000s)	MRQ Balance % of Assets
Base Liquidity Sources:												
Jumbo CDs > $250k *(Excludes brokered deposits > $250k)*	Near-Core	Large balance CDs only partially insured	Base	Auto when renewed/opened	5%	$ 19,546	5%	$ 19,546	0%	$ -	$ 29,544	7.6%
Nontransaction Public Fund CDs	Near-Core	CDs fully or partially secured	Base	Auto when renewed/opened	5%	$ 19,546	5%	$ 19,546	0%	$ -	$ 76,376	19.5%
Transaction Public Fund Deposits	Near-Core	CDs fully or partially secured	Base	Auto when renewed/opened	5%	$ 19,546	5%	$ 19,546	0%	$ -	$ 16,338	4.2%
Base + Contingency Liquidity Sources:												
FHLB Credit Obligations	Non-Core	Secured borrowing	Base & Contingency	Auto when renewed/opened; every six months	40%	$ 156,368	0%	$ -	9%	$ 34,811	$ 2,217	0.6%
Wholesale Brokered Deposits	Non-Core	CDs obtained through brokers	Base & Contingency	Auto when renewed/opened; every six months	10%	$ 39,092	5%	$ 19,546	5%	$ 19,546	$ 26,533	6.8%
Reciprocal Brokered Deposits (CDARS)	Near-Core	Large balance insured CDs	Base & Contingency	Auto when renewed/opened	5%	$ 19,546	5%	$ 19,546	0%	$ -	$ 10,016	2.6%
Listing Service Deposits	Near-Core & Non-Core	Private deposit listing service CDs	Base & Contingency	Auto when renewed/opened	10%	$ 39,092	5%	$ 19,546	5%	$ 19,546	$ 15,210	3.9%
Brokerage Firm Deposit Sweep Arrangements	Non-Core	Unsecured short term deposits	Base & Contingency	Auto when renewed/opened; every six months	0%	$ -	0%	$ -	0%	$ -	$ -	0.0%
Fed Funds Purchased	Non-Core	Unsecured/Secured short-term borrowing	Base & Contingency	Auto when renewed/opened; every six months	10%	$ 39,092	5%	$ 19,546	5%	$ 19,546	$ -	0.0%
Secured Fed Funds Purchased:											$ -	0.0%
Repo Agreements	Non-Core	Secured short-term borrowing	Base & Contingency	Auto when renewed/opened	10%	$ 39,092	5%	$ 19,546	5%	$ 19,546	$ -	0.0%
Contingency Liquidity Sources:												
Total Reported Other Borrowings											$ -	0.0%
Fed Discount Window	Non-Core	Primary credit program	Contingency	Auto when renewed/opened; every six months	7%	$ 28,868			7%	$ 28,868	$ -	0.0%
	Non-Core	Secondary credit program	Contingency	Auto when renewed/opened								
	Non-Core	Seasonal credit program	Contingency	Auto when renewed/opened								
Note: MRQ balance may include secured borrowings to entity(ies) other than the Federal Discount Window (specific detail to be provided by member).										Potential Collateral to Pledge to FRB:		
Note: Pledging loans that are not considered eligible or exceed restricted asset levels at the FHLBank to the FRB for additional borrowing capacity.										Unpaid Principal Balance (Loans Only)	$ 45,270	11.6%
										Lending Value (Loans Only)	28,868	7.4%
Total Correspondent / Corporate Lines of Credit	Non-Core	Secured/Unsecured borrowing	Contingency	Auto when renewed/opened; every six months	0%	$ -			0%	$ -	$ -	0.0%

Funding Worksheets & Components

Funding Worksheet

For: **Federal Home Loan Bank Advances**

Institution:

Date Completed: Completed By:

Funding Type: ☐ Near-core ■ Non-core ☐ Brokered ■ Non-brokered

The FHLBanks is comprised of eleven regional banks with assigned territories. These banks are cooperatives owned by members from the bank, thrift, insurance and credit union industries. To access funding in a FHLBank an institution must become a member with the purchase of stock. Though independent, the FHLB's are regulated by the Federal Housing Finance Agency and each FHLBank has its own management and board of directors. Chartered by congress in 1932, the system was created to provide both liquidity and funding to its members so that homeownership could be expanded through longer term mortgage finance. The Office of Finance conducts debt-raising activities for the FHLB system through both note and bond issuance. These securities are backed by the "joint and several" guaranty of each of the eleven banks.

Funds raised from the FHLBank are universally considered to be a non-core source of funding. As no commission is paid, they would also be non-brokered and not vulnerable to regulatory actions restricting the use of brokered CDs.

Funding Mix: Policy Limit **40% of assets**

The FHLBank is an important source of funding for both base liquidity and as part of the CFP. Given the nature of our loan portfolio, there is far more collateral available than needed to collateralize advances up to and including 40% of total assets for the following reasons:

- Management does not wish to become too reliant on a single funding source
- Under certain kinds of liquidity stresses, the FHLBank could increase collateral haircuts potentially putting us in a position where there is inadequate collateral to cover outstanding advances.
- The limit provides room to use FHLBank advances as part of both our base funding and contingency funding strategies.

Funding Utilization: ■ Base Funding ■ Contingency Funding

In our base liquidity strategy, we will utilize FHLBank advances up to 20% of assets to do the following:

- Provide lower cost funding when FHLBank advances are inexpensive relative to other funding sources.
- Hedge interest rate risk and option risk in our loan portfolio.
- Supplement core funding when asset growth exceeds core funding growth
- Provide seasonal funding for seasonally based asset growth
- Leverage excess liquidity for short-term, low risk, earnings enhancement strategies

Because it is a collateralized borrowing source, FHLBank advances may be available to fund the balance sheet after other sources of near-core and non-core funding have dried up, making advances an important contingency funding source.

Therefore, it is our goal to maintain FHLBank advance utilization at no more than 20% of total funding as part of our base liquidity strategy, keeping the remaining 20% of the policy limit available to fund the balance sheet during stress events.

Funding Structure and Pricing: Advantages, Rates, Terms, Options

Term structure of funding typically varies from overnight to intermediate term and can be structured with or without amortization as well as options designed to favor either borrower or lender. Pricing of borrowings (referred to as "advances") can be on either a fixed or floating rate basis and is determined by the cost of debt issuance by the System. The spread of FHLB debt to Treasury debt has typically been quite narrow, translating into advantageous funding for its members. The issuance advantage, coupled with low overhead and modest profitability objectives, has led to advances become a principal source of funding for community institutions.

Many advance products have embedded options that provide benefits to the borrower. Members that use option-embedded products work with their respective FHLB to make certain the product they use is an appropriate fit for their balance sheet.

Advantages include:

- FHLB system has become an integral part of community institution funding strategies, which is due to the funding advantages offered to its members.
- Unique ability to offer anything from overnight to intermediate maturities on either a fixed or floating rate basis provides a funding source like no other in the marketplace.

- Funding Type
- Funding Mix
- Funding Utilization
- Funding Structure and Pricing
- Facility Status/Operations
- Facility Capacity/Collateral
- Facility Testing
- Vulnerability to Liquidity Stress Events

FHLBank Topeka

Stress Event Scenario Worksheet

Scenario Name: Economic Recovery Leading to Rising Interest Rates

Scenario Description:
This scenario portrays an improving economy resulting from monetary and fiscal stimulus programs resulting in the Fed increasing interest rates on a regular consistent basis over the next 24 months. The improving economy results in greater loan demand and a resulting need for additional funding and increased competition for deposits.

Cause and Effect Sequence:

Cause:	Effect:	Time Horizon:
Economic recovery leads to fed increasing rates	• Rising short-term interest rates • Depositors begin chasing higher rates • Deposit velocity and migration to higher rate products and competition increases • Pressure increases to pay up for deposits	Immediate and ongoing over the next 12-24 months
Improvement in economic conditions leads to economic expansion	• Loan demand accelerates as results of increased confidence among businesses and consumers • Increased funding required to meet loan demand and growth	6-12 months

Horizon: ☐ Intraday ☐ Day-to-Day ■ Weeks ■ Months ■ Long-term

Probability: ☐ None ☐ Low ■ High

Impact: ☐ Low ■ High

Describe Potential Effect on:

Core Funding: • Investment portfolio decreases to funding loan growth • Market value of investment portfolio declines as result of rising rates potentially resulting in losses if sold to fund additional loan growth • Market value decreases in investment portfolio impact collateral available to secure public deposits, retail repurchase agreements or FHLBank advances reducing liquidity readily available • Cash flow from investments are reduced from potential prepayment or call optionality reducing future liquidity • Deposit outflow occurs if members find more attractive rates elsewhere reducing core funding • Deposit migration to other higher cost products/terms occurs as rates are increased or deposit specials are offered to attract funding resulting in higher funding costs
Near-Core and Non-Core Funding: • Reduced value of collateral for collateralized funding from FHLBank, Fed or CLF • Increased cost of unsecured or secured sources of wholesale funding

Miscellaneous Scenarios

- Loan sales did not close as expected funds needed short term
- Daylight overdraft with the FED
- Payroll settlement with third party requires funding
- Deposit runoff (including maturity of time deposits)
- Funding tax payments
- Funding asset purchases